

VZCZCXRO1405
RR RUEHAG RUEHDBU
DE RUEHKB #0511 0940918
ZNY CCCCC ZZH
R 040918Z APR 06
FM AMEMBASSY BAKU
TO RUEHC/SECSTATE WASHDC 0038
INFO RUCNCIS/CIS COLLECTIVE
RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEHAK/AMEMBASSY ANKARA 1572
RUEHTH/AMEMBASSY ATHENS 0207
RUEAIIA/CIA WASHINGTON DC
RHEBAAA/DEPT OF ENERGY WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RHEHNSC/NSC WASHDC

C O N F I D E N T I A L BAKU 000511

SIPDIS

SIPDIS

DEPT FOR EUR DAS BRYZA

E.O. 12958: DECL: 04/04/2016

TAGS: [EPET](#) [ECON](#) [ENRG](#) [PREL](#) [PGOV](#) [KZ](#) [AJ](#)

SUBJECT: AMBASSADOR AND STATOIL DISCUSS SHAH DENIZ PHASE II
DEVELOPMENTS AND CHALLENGES

Classified By: AMBASSADOR RENO L. HARNISH III PER 1.4 (B,D).

¶1. (C) SUMMARY: Statoil executives briefed the Ambassador March 29 on the challenges facing the international energy companies and the GOAJ as Shah Deniz Phase II (Phase II will increase annual gas production by 18-20 bcma) moves forward. International companies want to pool their gas with the GOAJ gas in order to obtain profitable long-term supply contracts in international markets. The GOAJ, however, may be looking to use its share of the gas for domestic consumption. The executives also said EU anti-monopoly rules could threaten Shah Deniz sales to Europe. Statoil's CEO raised this issue with EU leader Javier Solana. Statoil is supportive of a trans-Caspian gas pipeline, although the company's primary focus is making Shah Deniz Phase II a success. END SUMMARY.

¶2. (C) In a meeting on March 29, Statoil Azerbaijan President Georg Gundersen and VP for Gas Jan Heiberg told Ambassador that Shah Deniz Phase II, scheduled for completion in 2011 or 2012 (Phase II will increase annual gas production by 18-20 bcma), still faces several logistical issues that could threaten to stall or slow the project. Statoil executives explained that the GOAJ and international companies had to reach an agreement, similar to Shah Deniz Phase I, in which the companies and the government would combine their respective gas reserves in order to obtain profitable long-term supply contracts in international markets. The international companies need the GOAJ to commit to combining the reserves or risk obtaining a lower price for future gas deliveries or not having enough gas to supply contracts. The GOAJ has evidently discussed using its share of the Shah Deniz Phase II gas for domestic consumption. The companies feel that the project may not be as commercially successful if they are not able to convince the GOAJ to join them.

¶3. (C) Statoil executive also said that current European Union anti-monopoly rules would threaten the proposed sale of Shah Deniz gas to Europe. Statoil's CEO recently raised this point with EU representative Javier Solana. Solana, according to Gundersen, was particularly interested in discussing diversification of gas supplies. Despite this interest, however, Statoil believes that the EU will move slowly to make any exemptions or changes to current legislation. (This is not the first time that an international energy company has raised with us the EU's anti-monopoly and its effect on joint marketing of gas and oil to Europe.)

¶4. (C) Statoil executives told the Ambassador that they feel

Azerbaijan fits Norway's gas model in which it gradually increases capacity in small increments. As Norway did during the 1980s, Statoil envisions Azerbaijan beginning with small gas quantities used for domestic needs (6-8 bcma) and slowly adding to this amount an additional 20 bcma that will allow it to export gas to Europe.

15. (C) Regarding the idea of building a trans-Caspian pipeline to bring gas from Kazakhstan and or Turkmenistan through Azerbaijan to Europe, the Statoil executives expressed interest in additional details. The Ambassador told them that EUR DAS Matthew Bryza planned to visit Baku April 3 and they indicated they would raise it with him and discuss the idea further. Without saying so, it appeared that the Statoil executives focus was certainly more on the medium-term and getting Shah Deniz Phase II working. They noted that once Azerbaijan begin exports of gas to Europe, other countries and energy companies will take notice and want to use its gas network, generating greater interest and support in a TransCaspian pipeline.

HARNISH